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Political Partisanship and Financial Reforms in Advanced Countries *

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Abstract

Applying regressions on a sample of 18 OECD countries from 1970 to 2009 using new indicators, we find that right-wing governments liberalize more the financial sector than left-wing governments. We show that if a left-wing government accepts to liberalize the financial sector, an increase of social security expenditures can facilitate the adoption of a new legislation in the financial sector. To estimate the impact of the government partisan affiliation on the corporate governance legislation, we use a probit model and a conditional Cox model in gap time in 16 OECD over the 1970-2009 period. Statistically, we find that right-wing governments enhance more pro-shareholder policies.

Keywords: Political Partisanship, financial liberalization, corporate governance, institutional change

JEL Classification: G38, C33, P16

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Effet partisan et réformes financières dans les pays développés

Résumé

A partir de régressions en données de panel portant sur un échantillon de 18 pays de l'OCDE de 1970 à 2009, nous trouvons que les gouvernements de droite libéralisent davantage le système financier que les gouvernements de gauche. Nous montrons que si un gouvernement de gauche accepte de libéraliser le secteur financier, une augmentation des dépenses de sécurité sociale peut faciliter l'adoption d'une nouvelle législation dans le secteur financier. Afin d'estimer l'impact de l'affiliation partisane du gouvernement sur la législation relative à la gouvernance d'entreprise, nous utilisons un modèle probit puis un modèle de Cox conditionnel in gap time pour 16 pays de l'OCDE sur la même période. Nous trouvons que les gouvernements de droite sont à nouveau plus enclins à améliorer la législation favorable aux actionnaires minoritaires.

Mots clé: Effet partisan, libéralisation financière, gouvernance d'entreprise, changement institutionnel

Classification JEL: G38, C33, P16

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1 Introduction

The financial crisis of 2007-2008 partially undermined the process of financial liberalization that had accelerated since the early 1980s. This process refers to the reforms within the financial and banking sector and to the corporate governance reforms (pursued more specifically in Germany, Japan and France). Adopting a multidimensional definition, financial liberalization refers to measures directed at dismantling regulatory control over institutional structures, instruments and activities of agents in different segments of the financial sector. What explains that governments decided to liberalize the financial sector? Firstly, governments facing with growing deficits had to find alternative ways other than debt. Secondly, the aim of the financial reforms was to reinforce the competitiveness of markets in the financial and banking sector

The corporate governance refers to how the power between stakeholders (i.e. employees, suppliers, banks and other lenders) and shareholders is shared. Financial markets and corporate governance are closely linked (La Porta *et al.*, 1997; 1998; Hall and Soskice, 2001): in that sense, we assume that financial liberalization brings about major institutional consequences, notably within the industrial relations. Financial reforms are affecting financial as well as work relationships. Table 1 shows the main characteristics of the two "traditional" models of corporate governance: the "insider" model in Continental Europe and in Japan and the "outsider" model in the Anglo-Saxon countries[1].

[Insert Table 1 about here]

The aim of this article is to analyze the political determinants of financial reforms in 18 OECD-countries from 1970 to 2009:

i) Does traditional political partisanship still play a role by explaining financial reforms? Intuitively, right-wing governments are more likely to liberalize than left-wing governments. Indeed, each government is concerned to represent the interests of their constituency. We expect to obtain a positive relationship between the degree of financial liberalization and the government ideological position (Roe, 2003).

ii) Which political strategy should a left-wing government adopt if it accepts to liberalize the financial system? We except that left-wing governments implement compensation mechanisms, particularly addressed to workers who demand more redistribution and social protection toward an increasing financial integration. For which reasons would a left-wing government would accept to respond favorably to the shareholders' demand? Thus, left-wing governments, that want to be reelected, can gamble on financial reforms to renew economic growth and to favor competitiveness. Tiberghien (2007, p.8) calls the "Golden Bargain" the fact that "in exchange for corporate and structural reforms, global investors offer abundant equity inflows and the promise of a lower capital cost and increased competitiveness". In that sense, the government's decision is influenced by the action of the other governments: when

[1]For further description of the Anglo-Saxon, German, French and Japanese systems, see Allen et Gate (2001), Roe (1997), Schmidt (2004), Charreaux and Witz (2007) and Yafeh (2000).

the United States and the United Kingdom decided to open their financial markets, countries that had maintained capital controls had strong incentive to abolish it.

In this paper, we will take into account the preferences of different actors to explain the decisions made by governments without neglecting external constraints. Adopting a political economy viewpoint, we try to identify which socio-political groups could be formed on the basis of their preferences for financial reforms.

Recent debates in political economy focus on the determinants of structural reforms in advanced countries: are structural reforms the result of *economic* or *political* factors (Amable, 2007)? If these reforms are seen as the outcome of economic factors, some economic constraints (such as growing public deficit) might have reduced the role of politics and political partisanship: Abiad and Mody (2005) show that financial liberalization has little to do with political variables for 35 countries in 1973-1996 period. Conversely, some papers highlight that the financial systems are the results of political choices (Rajan and Zingales, 2003). In that vein, Burgoon *et al.* (2008) show that a shift to a left-wing (respectively to a right-wing) government decreases (increases) the chances of financial liberalization for the same period and countries. Kastner and Rector (2005) show, for 12 West-European democracies from 1960 to 1986, that it is more difficult for a left-wing government to increase restrictions on capital flows if this government succeeds to a right-wing government. Quinn and Toyoda (2007) find that capital account liberalization is positively correlated with a decline of votes for Communist Party worldwide within 82 countries from 1955 to 1999. Consequently, a change in preferences among elites and among voters is interpreted as the origin of institutional change. In this sense, implemented policies are determined by the ideology shared by political elites. Quinn and Inclan [1997] identify two effects for 21 OECD-countries from 1950 to 1988: a "partisan macropolicy effect" and a "partisan price relative effect"[2]. They also show that the type of political economy, the independence degree of the central bank and the political system play an important role in their analysis. All these previous papers, except Abiad and Mody's one, show that right-wing governments liberalize more capital movements than left-wing governments.

We suggest in this article to test the empirical relationship between the degree of financial liberalization and the government ideological affiliation by using two new indicators of financial liberalization (Chinn and Ito, 2008 ; Kaminsky and Schmukler, 2008) and a new government ideological position index (Amable *et al.*, 2006). Kaminsky and Schmukler's index captures the internal and external dimensions of the process of financial liberalization. To estimate the relationship between political partisanship and corporate governance reforms, we use a dichotomous variable capturing the years during which a pro-shareholder legislation was enacted. Our results indicate that the partisan hypothesis is verified as in the previous papers. This result suggests that political parties after their election seek to respond to the demands of differentiated social groups. We also show that a left-wing government will decide to liberalize the financial system by increasing the social security expenditures to com-

[2]The first effect - "partisan macropolicy effect" - refers to the fact that political parties decide to pursue different macroeconomic policies. The second effect - "partisan price relative effect" - refers to the country's factor endowment: two countries with ideologically close governments are able to adopt different strategies.

pensate the increasing insecurity for workers exposed to international competition. Conversely, a right-wing government will less sensitive to these political demands: its objective will be to reduce tax by opening the capital account. However, this compensation hypothesis seems not to be verified in the case of corporate governance reforms.

The paper is organized as follows. Section 2 analyzes the different preferences of the main actors influencing the decision to liberalize the financial sector. Section 3 presents the theoretical foundations of the compensation hypothesis. Section 4 analyzes the influence of the institutional framework. Section 5 exposes the empirical model. Section 6 presents the results of our regressions. Section 7 concludes.

2 Financial liberalization and political preferences

Strong redistributive transfers characterize financial reforms. The redistributive transfers are inducing strong political conflicts: for this reason, left-wing parties and right-wing parties will adopt different strategies, particularly in tax policy. They will pay strong attention to demands from the socioeconomic group(s) that they are representing. Four actors influence the decision to liberalize the financial sector: workers, "capitalists" (managers and shareholders), international actors (trading partners and international institutions) and the government as the arbitrator between these different demands.

2.1 Political preferences of managers and financial investors

Financial liberalization tends to satisfy the interests of capital holders: strongly integrated financial markets guarantee a better resource allocation to diversify risks. Financial liberalization leads to an intensification of competition in the banking and financial sector, a strong development of securitization operations (on the derivatives markets) and an internationalization of financial markets. According to the theoreticians of financial liberalization, McKinnon (1973) and Saw (1973), abolishing financial restrictions contribute to attract more deposits because interests rates are higher and to select only high-productive projects. Financial economists are assuming that financial liberalization should lead to a perfect equilibrium between capital supply and capital demand[3] and thus to an optimal allocation of capital. Increasing interest rates facilitates the reduction of inflationary pressures. For these reasons, financial liberalization is thus consistent with the right-wing governments' goals (Hibbs, 1977; Alesina, 1987). Capital inflows, allowing countries to finance more investment, tend to reduce the cost of capital. Furthermore, the increasing competition and the deregulation of the interest rates contribute to reduce the cost of the financial intermediation. The preferences of commercial banks for financial liberalization changed over time: indeed, commercial banks were traditionally opposed to financial liberalization until the 1970s. Policymakers were concerned to safeguard the financial stability in postwar time and small banks benefited from

[3]The effects of financial repression are to hold down interest rates: this leads to low national savings rates and to a permanent excess of demand of lendable funds. Increasing interest rates may increase savings rate and then stimulate investment and economic growth.

banking regulation (Economides *et al.*, (1996)). Regulation in the United States, according to the Economides *et al.*'s (1996) model, was in the interest of small banks. But, progressively, commercial banks, after having been merged, wanted to benefit from the internationalization of the banking and financial activities. The process of concentration and internationalization of financial institutions accelerated in the mid-1980s, particularly in Western Europe. In the 1950s and 1960s, commercial banks benefited from rents due to their monopolistic position. But, these rents were threatened by the financial openness: incumbent banks had to face with new competitors and those banks wanted to get new profits. Therefore, we can see political considerations explaining the shift from a strong financial repression in the 1950s to an increasing financial liberalization situation in the 1970s/1980s. This change in preferences is reflected by the intense lobbying activity.

At the firm level, integrated and liquid financial markets facilitate the maximization of shareholder value strategy. Despite higher interest rates the cost of capital is lower because financial investors decide to invest within the firm and to bring their capital. Then managers can expect an increase of the profit rate. In this sense, managers and financial investors have common interests (Checchi, 1996). By introducing incentive mechanisms or by creating a market for corporate control shareholders reach to reduce agency costs. These agency costs are intrinsically linked to managerial control (Berle and Means, 1932). Incentive mechanisms for instance refer to stock options (Pagano and Volpin, 2005). To attract capital entrepreneurs have to increase minority shareholder protection. We suppose in this paper as in the Gourevitch and Shinn's (2005) "investor model" that agency conflicts between managers and shareholders disappear by introducing these incentive mechanisms. Nevertheless, reinforcing the degree of minority shareholder protection can result in reducing managers' benefits and more specifically private benefits of control.

2.2 Political preferences of workers

On the other hand financial liberalization contributes to weaken workers' situation by reinforcing the international competition and more particularly for low-skilled workers (Rodrik, 1997). Over years, constituencies of the left have changed with the decline of the manufacturing working class: the new constituency is now composed by the economically insecure voters strongly exposed to international competition (Garett, 1998). Furthermore, capital taxation is more difficult in a world of mobile capital. For this reason, left-wing parties are fiercely opposed to liberalize capital flows. Plü¡mper *et al.* (2009) show that left-wing governments on average set higher tax on capital income and that differences between capital and labor tax rates are smaller. Moreover, reinforcing capital mobility can destroy many jobs particularly in sectors which are strongly exposed to international competition.

Why is a concentrated ownership structure more compatible with the workers' interests? First, we suppose that left-wing governments will be also not much inclined to promote corporate governance reforms whose aim is generally to increase the power of (minority) shareholders within the firm. Corporate governance reforms have strong distributional consequences: conflicts between "capitalists" and workers are essentially concentrated around the degree of employment protection and the wage share of income. On the one hand, workers call for a better employment protection with stable jobs which seems incompatible with the strategy to increase short-term corporate profitability. Minority shareholders promote an increase of the degree of flexibility on the labor market (e.g. by eliminating secure and stable jobs). The aim of these reforms is to increase the degree of minority shareholder protection and the transparency rules in accordance with corporate governance rules (OECD, 2004). In that sense, capital holders would like to eliminate the agency costs caused by maintaining a high degree of employment protection (Roe, 2003). One the other hand, workers demand wage increases, even in expense of shareholder value. The interests of capitalists and workers are thus in conflict (Checchi, 1996). Indeed, increasing minority shareholder protection and particularly facilitating hostile takeovers contribute to shift income and wealth from workers to minority shareholders. It also affects the wage distribution because this strategy implies larger wage dispersion and consequently a more non-egalitarian income distribution. The company's strategy is more compatible with the workers' interests where ownership concentration is strong than where the ownership structure is diffuse (Table 1). In the latter case, the company's strategy consisting in maximizing shareholder value may generate negative externalities for workers. Conversely, in the former case, company internalizes the workers' interests. Social returns do not differ from private returns. Second, left-wing parties also promote a strong economic regulation on labor and product markets that seems to be more compatible with a high degree of ownership concentration.

2.3 International cooperation and international organizations

Many studies analyzed the different interactions between national and international policies. In his model, Putnam (1988) proposes a two-level game in which negotiations in the international framework depend on the country's national political situation. Governments taking part in international negotiations pay attention to satisfy the preferences of their constituents. All participants seek to find a solution which obtains a majority in view of multiple partisan constraints at the national level. Internationalization - characterized by network externalities - imposes a minimal level of coordination among countries. In this sense, the action of a government is directly determined by the behavior of other governments: when one country - the United States - decided to liberalize capital flows, capital controls became inefficient and particularly costly for countries which decided to maintain them. According to Amable and Palombarini (2005, p.263), "the setting up of the international compromise will thus depend on the relative power of the concerned government. One can thus consider that some national compromises are undermined by the arrangements established between governments which will cause an internal institutional and political change".

Countries coordinate each other by applying convergent policies. International organizations contribute to define "acceptable policies" (Quinn and Toyoda, 2007) to pursue at the international level[4]. How these "acceptable policies" are defined

[4]Since the 1990s international financial organizations (IFOs) such as the World Bank, International Monetary Fund (IMF), Bank for International Settlements (BIS) or the Organization of

depends on a political process: Hall (1993) interprets the major ideological changes during the 20^{th} century as "paradigm shifts". Hall identified two main paradigm shifts since the early of the 20^{th} century: after the collapse of Bretton Woods system in 1973, Monetarism progressively succeeds to the dominant Keynesianism. Economic environment changed with the successive economic crises: Keynesian policies were progressively judged inefficient (Hall, 1993; Helleiner, 1994). Hall notes that these paradigm shifts depend more on politics than on simple experts' recommendations. Consequently governments will be more likely to liberalize their financial sector if international organizations promote economic openness.

International openness also results in reinforcing competition among countries. Governments pay attention to their level of economic competitiveness. In a world of mobile asset holders, any increase of capital taxation enhances the fear of capital flight. Governments are thus not encouraged to increase capital taxation (Personn and Tabellini, 2000). However, while they compete for internationally mobile capital, they have also to respond to the demands of their constituents in terms of public goods. They need tax revenues to finance public goods. Thus, the government's ability to reduce tax on capital income depends on budget constraints and fairness norms (Plümper *et al.*, 2009).

2.4 The role of government

Government is confronted with heterogeneous demands and has to arbitrate between these contradictory demands. Right-wing governments will defend "capitalists'" interests (managers and shareholders) while left-wing governments tend to defend workers' ones. Beyond purely partisan objectives government is also concerned to look at supranational and macroeconomic objectives. Besides their redistributive aspect of financial liberalization the policies of financial liberalization are furthermore aiming at improving economic efficiency and thus stimulating economic growth. When the macroeconomic situation deteriorated in the mid-1970s after several shocks all governments, including left-wing governments, gambled on liberalization policies that may present high mid-term positive economic benefits (even though they presented relatively high short-term political costs for left-wing governments). The growing neoliberal and monetarist ideology seduced most of political leaders as witnessed the French case: in 1984 the French Socialist government decided to liberalize the financial sector following the monetarist recommendations by introducing supply-side policies (*politique de rigueur*). Following the analysis developed by Amable and Palombarini (2005), the France's minority position endangered its economic performances. While liberalizing the financial sector seems rational for right-wing governments, it is more ambiguous for left-wing governments: liberalizing the financial sector can be harmful to their traditional constituents but

Economic Cooperation and Development (OECD) have encouraged financial liberalization in advanced and emerging countries. They have recommended abolishing any form of capital controls, implementing the OECD "Principles of Corporate Governance" [2004] and ensuring a better minority shareholder protection. The World Bank or OECD encourage capital market development which promotes higher economic growth rates while "the IMF and the BIS have a vital interest in reducing moral hazard in financial sector firms as part of the global challenge of prudential regulation" (Gourevitch and Shinn, 2005, p.100).

maintaining high financial restrictions can result in high losses in terms of economic efficiency (Kastner and Rector, 2005).

Therefore macroeconomic aggregates need to be taken into account to liberalize the financial sector at the international and national levels: low growth rates or a high public deficit should favor policies of financial liberalization. However financial liberalization also reinforces the instability of the financial markets as witnessed more frequent crises since the 1980s. Then a banking or financial crisis are more likely to increase regulation on financial markets.

3 Financial reforms and political strategy: the compensation hypothesis

3.1 Institutional complementarities and compensation hypothesis

In an approach of political economy the consequence of the strategy of social groups can be interpreted as the result of institutional change. However institutional change induces through institutional complementarities a set of changes that may alter the nature of "Dominant Social Bloc" (DSB) (Amable and Palombarini, 2009). Moreover, if governments decide not to satisfy the preferences of the DSB, this one can be transformed or even wiped out: governments are in this case confronted with an endogenous political crisis. Hence, the process of local institutional change needs to be very progressive to circumvent that positive externalities from institutional complementarities turn into negative externalities (Streeck, 2009) that can be at the root of a welfare reduction for one of the groups from the DSB. To arbitrate government will choose the least-cost solution priority for the DSB (Amable, 2003). As previously mentioned, the international dimension of institutional change alters the socioeconomic equilibrium and the balance of power between different groups. It may also alter the composition of the DSB.

If a left-wing government decides to liberalize the financial sector because it considers that countries need to coordinate financially (at the international and the European levels), policymakers can decide to increase social security expenditures or the degree of employment protection: a left-wing government is more likely to adopt this strategy to compensate the negative effects of liberalization policies on workers' welfare. Compensation hypothesis is based on the idea that globalization losers, i.e. more insecure individuals, should prefer more social protection and will support parties that advocate welfare state expansion and more redistribution. It is supposed that the effects of globalization are different according the individual's sector of employment and his factor endowments (Walter, 2010). Following the idea of Burgoon *et al.* (2008), we want to test the hypothesis that a rise of social security expenditures increases the likelihood of liberalizing the financial sector in the following year. But, contrary to Burgoon *et al.* (2008) which show that only an increase of health spending can compensate the negative effects of financial liberalization, we want to prove that a left-wing government will increase social security expenditures before accepting to liberalize the financial sector. Indeed, poor and low-skilled individuals are more likely to support redistributive policies (Guillaud, 2008). For this reason, we can consider that insecure individuals are more likely to vote a left-wing party that advocate welfare state expansion. Then, left-wing governments have to satisfy the political preferences of those voters. Conversely, right-wing governments are less concerned to satisfy those preferences and can even be adverse to increase social security expenditures[5].

3.2 The example of the strategy of the "modern" left: the "Third Way"

Cioffi and Höpner (2006) show that paradoxically recent major corporate governance reforms were adopted by left-wing governments in Continental Europe. Tiberghien (2007) looks more particularly at the French case: the French Socialist government (1997-2002) voted the law on New Economic Regulations (*loi des Nouvelles Régulations Economiques* [*NRE*]) which was at the root of an unprecedented wave of privatizations, a strong reduction in tax on stock-options and the increase of the rights for minority shareholders in major companies. The aims of these reforms were to increase the degree of economic competitiveness in France but also to strengthen the layoff conditions and to introduce the thirty-five-hour week, as compensation mechanisms.

With the aim of stimulating the economic activity and of finding an efficient way of funding the retirement pay-as-you-go schemes through private savings, European Social-Democrats sought to stimulate supply-side policies with more positive fiscal incentives without giving up integrally demand-side policies "in favor of a fruitful combination of micro-economic flexibility and macro-economic stability" (Blair and Schröder, 1999). In other world, the strategy of the "modern" left (or the 'neo-liberals of the left') is based on the promotion of competition-enhancing policies (Amable, 2011). Being aware of harmful effects associated with financial liberalization, European Social-Democrats suggested promoting a better access to education and training and more specifically occupational training.

Despite side payments and social policies that should have compensated the negative effects of financial liberalization on workers' welfare, financial reforms largely weakened traditional constituents from the "old Social-Democracy". In recent times, the Labor Party in the United Kingdom and the SPD in Germany suffered severe electoral defeats. These results may be interpreted as a strong demand of a high partisan differentiation between left-wing and right-wing parties.

4 Partisan politics and political/economic institutions

Institutional complementarities (Hall and Soskice, 2001 ; Amable, 2003), the political system and the institutional environment appear as obstacles to institutional change:

[5]It can rationale for right-wing governments not to increase social security expenditures, or even to reduce it.

Institutional complementarities are likely to occur when "the payoffs of the agents in one domain may be affected by institutions prevailing in other domains" in such a way that "individual institutions [in a viable overall institutional arrangement] may not easily be altered or designed in isolation" (Aoki, 2001, p.225). Many studies (Hall and Soskice, 2001; Amable, 2003) show that there are multiple interactions between financial systems and the other institutional domains: the liberalization of financial systems is likely to be more compatible with a flexible market of labor (Gatti *et al.*, 2011), with highly competitive markets of products, with general skills, with funded retirement scheme and with radical innovations (Hall and Soskice, 2001). Institutional complementarities between capital, management and labor within the firm are shown in Table 1.

The ability of one government to implement rapidly reforms depends on the nature of the political system: as Pagano and Volpin (2005) note, majoritarian voting systems are significantly correlated with a strong shareholder protection and with a weak protection of employment. In the same vein, Gatti (2009) notes that proportional systems are more encompassing and are associated with stronger labor market regulation. The impact of the political regime (presidential versus parliamentary) on the probability of liberalizing the financial sector is more ambiguous: on the one hand, presidential regimes are characterized by a higher electoral competition and by stronger interest groups (Lijphart, 1999): in this case, radical shifts are more likely to occur in presidential regimes while parliamentary regimes are characterized by a stronger cooperation among parties and among interest groups due to the right of veto of coalition parties. On the other hand, another argument can be used: presidential regimes are simultaneously characterized by a higher degree of clarity of political responsibility for policymakers: for this reason, government will pay attention to implement policies that present short-term electoral benefits. Restrictive international financial policies are related to a high clear political responsibility for economic performances (Quinn and Inclan, 1997).

Finally, the institutional environment has to be taken into account: reforming financial markets depends in part on the degree of central bank independence. As Mundell (1960) proved, capital account liberalization is associated with an independent central bank and floating exchange rate. Governments have to arbitrate between capital flows liberalization and the use of monetary policy for electoral purposes.

5 Empirical model

5.1 Estimating financial liberalization reforms

5.1.1 Econometric specification

The aim of this paper is test empirically whether the nature of the reforms within the financial sector may be explained by the government ideological position in 18 OECD-countries (Sweden, Norway, Finland, Denmark, Belgium, Netherlands, Spain, Italy, France, Germany, Austria, United States, United Kingdom, Ireland, Canada, Australia, New Zealand, Japan) from 1970 to 2009. The equation underlying our estimations is the following:

$$Y_{it} = \alpha_{it} + \beta.I_{it} + \sum_k \zeta_k.X_{k,it} + \sum_j \lambda_{it} + \epsilon_{it} \quad (1)$$

with Y_{it} being the dependant variable, α_i country fixed effects, I_{it} the variable capturing partisanship, $\sum_k X_{k,it}$ a set of control variables, λ_{it} a set of year dummies to account for unobserved year effects and ϵ_{it} an error term.

In a second specification of our model, we add an interaction term between our dependent variable and a variable capturing the social system (i.e. the social security expenditures)) S_{it}:

$$Y_{it} = \alpha_{it} + \beta_1.I_{it} + \beta_2.S_{it} + \beta_3.I_{it}.S_{it} + \sum_k \zeta_k.X_{k,it} + \sum_j \lambda_{it} + \epsilon_{it} \quad (2)$$

The effect of the social system on the degree of financial liberalization is *conditional* on the government ideological affiliation:

$$\frac{\partial E\left(Y_{it}|\mathbf{x}\right)}{\partial S_{it}} = \widehat{\beta}_2 + \widehat{\beta}_3.I_{it} \quad (3)$$

given that $\mathbf{x}$ is the vector of explanatory variables. We report marginal effects of the social security expenditures at different sample values of government ideological position (minimum, mean minus one standard deviation, mean, mean plus one standard deviation, maximum).

5.1.2 Data and variables

To account for partisanship, we use and extend Amable, Gatti and Schumacher's (2006) *Government Position* (*GP*) variable. This variable is a government ideological position indicator constructed on the basis on the *Comparative Manifesto Project*[6] from the Wissenschaftszentrum Berlin fï£¡r Sozialforschung (WZB). Their database provides variables for numerous political parties reflecting the relative frequency of statements in party manifestos on characteristic economic and non-economic political topics. From this voluminous list of variables, we have chosen a subset in order to construct a useful indicator.

Let i be the country in question, let $r = 1 \ldots n$ be the governing parties in parliament, let s_r be the respective last election share of votes, let C_{r_L}, $L = 1 \ldots m$ be the values of left characteristic variables for party r and C_{r_R}, $R = 1 \ldots k$ be the values of right characteristics variables for party r, then GP can be written as:

$$GP = \frac{1}{n} \sum_r \left[\left(\sum_R C_{r_R} - \sum_L C_{r_L} \right) s_r \right] \quad (4)$$

[Insert Figure 1 about here]

[6] All databases are available on `http://manifestoproject.wzb.eu/`

The index of financial openness *kaopen* proposed by Chinn and Ito (2008) is an indicator capturing the liberalization of capital movements. This indicator is available for 182 countries for the time period of 1970-2009. The second indicator is the Kaminsky and Schmukler's (2008) financial liberalization index *FL* composed by the sum of three simple indexes proposed by Kaminsky and Schmukler (2008). No variables are available for Belgium, the Netherlands, Austria, Australia and New Zealand. To test the compensation hypothesis, we include a variable $social\_security_{t-1}$ comprising the social security transfers as a percentage of GDP for the previous year only if the government had changed ($\Delta|ideology_{it}| > 0$) and if the degree of financial liberalization had increased ($\Delta kaopen_{it} > 0$ or $\Delta fl_{it} > 0$) and we use the interaction *left*social_ security* and *right*social_ security.* To capture the role of international openness, we used the variable *openness* based on the sum of exports and imports as a percentage of current GDP. We use then the variable *inter_ ideology* representing support for free-market internationalism proposed by Burgoon *et al.* (2008). We use a proxy variable for corporate governance ($LLSV$) developed by La Porta *et al.* (1998) as a summary index of six legal protections available to external shareholders to test the idea that a pro-shareholder ownership structure is more compatible with the liberalization of the financial structure. Three economic variables are included in the regressions: gross domestic product (GDP) growth, a measure of public deficit from Armingeon *et al.* (2010) and a dummy of banking crisis. Inclusion of GDP growth (*GDP_ Growth*) is a way of testing the idea that financial reforms are motivated by economic performance considerations. Inclusion of a measure of public deficit (*Deficit*) allow to test the hypothesis that governments are concerned to control the public deficit. We use a dummy variable for banking crisis proposed by Bordo *et al.* (2001): the variable *Banking* equals 1 in years of banking crisis. To account for the degree of bank central independence, we use the *CBI* indicator proposed by Alesina (1988): this index considers whether the central bank has final authority over monetary policy, whether government officials sit on the governing board of the bank, and whether more than half of the members are appointed by the government. We include two additional institutional variables: the first variable, *majoritarian*, indicates whether the voting system is proportional representation (value 0), modified proportion representation (value 1) as in France, Australia or in Japan or single-member (value 2) as in the United States, the United Kingdom or in Canada. The second variable, *presidential*, indicates whether the political system is presidential (value 1) or parliamentary (value 0).

[Insert Figures 2 and 3 about here]

5.1.3 Methodology

The OLS regression assumes homoskedasticity and independence of the errors. These specific hypotheses are not verified. Fixed effects estimation assumes that the influence of the observed independent variables on the dependent variable needs to be the same for all individuals. The Hausman test confirms that a fixed effects test is more judicious (than a random effects test). The null hypothesis of the Breusch-Pagan test is that of cross-sectional independence. The test rejects the null hypothesis[7]; hence there is spatial correlation in our data. Then, we calculate a modified Wald test for groupwise heteroskedasticity in the residuals of a fixed effect regression model. The null hypothesis of homoskedasticity is strongly rejected[8]. The above tests suggest that we might not use the standard fixed effect procedure without taking into account spatial correlation and panel heteroskedasticity. As a consequence, we are able to use the ordinary least squares (OLS) with Beck and Katz's [1995] panel corrected standard errors (PCSE).

5.2 Estimating Corporate Governance Reforms

5.2.1 Econometric specification

In this second regression, the sample is composed of 16 OECD-countries (Sweden, Norway, Belgium, Netherlands, Spain, Italy, France, Germany, Austria, United States, United Kingdom, Ireland, Canada, Australia, New Zealand, Japan). The standard panel probit model is specified in term of the latent regression model:

$$y^* = X'\beta + \epsilon \tag{5}$$

with X being a regressor vector composing of our ideological variable and our control variables. In equation (5) y^* is unobservable and is a measure of an "improvement of the minority shareholder protection". We can observe:

$$y = \begin{cases} 0 & \text{if} \quad y^* \leq 0 \\ 1 & \text{if} \quad y^* > 0 \end{cases}$$

5.2.2 Data and variables

We want to assess the impact of discrete legislative events on the duration and the "quality" of minority shareholder protection (MSP). Each observation records whether the country adopted a favorable legislation for minority shareholders or not in a particular year. Comparative work show that a satisfactory measure of corporate governance for use in panel data analysis is currently unavailable (Barker, 2010). The lack of primary data needed to create a new dichotomous dependent variable. First, we identified all corporate governance reforms enacted for the 1970-2009 period in 16 OECD countries. Because information about corporate governance reforms in Denmark and in Finland is lacking, we deleted these two countries from our sample. Then, we distinguished those reforms that represented an improvement of the minority shareholder protection that includes the adoption of accounting rules and audit procedures, an independent board, the ability for minority shareholders to control some strategic decisions and finally the adoption of managerial incentives

[7] Breusch-Pagan LM test of independence: $\chi^2(153) = 1585.04$, $p < 0.000$ for the model with financial openness (*kaopen*) as dependent variable and $\chi^2(78) = 1311.54$, $p < 0.000$ for the model with financial liberalization (fl) as dependent variable

[8] Modified Wald test for groupwise heteroskedasticity: $\chi^2(17) = 20973.24$, $p < 0.000$ for the model with financial openness (*kaopen*) as dependent variable and $\chi^2(13) = 660.07$, $p < 0.000$ for the model with financial openness (fl) as dependent variable

(Gourevitch and Shinn, 2005). We examined different types of sources: we used numerous comparative studies on corporate governance produced by the World Bank or the IFM and comparative reports, corporate governance codes and datasets (Siems *et al.*, 2009; Tiberghien, 2005). All the identified provisions were included in 154 reforms. France undertook seventeen reforms; the United Kingdom and the United States fifteen; Germany fourteen; Japan twelve; Italy ten; Spain and Ireland nine; Sweden and Finland eight; Austria and New Zealand seven; Belgium, Canada and Australia six; the Netherlands five. Figure 4 shows the number of events enacted from 1970 to 2009. Although we do not observe a clear increasing or decreasing trend over time, the first peak of reforms is concentrated at the end of the 1980s and at the end and beginning of the 2000s after experiencing multiple scandals.

[Insert Figure 4 about here]

We also include in this second regression the variables *openness*, *kaopen*, *majoritarian* and *presidential*. We want to test whether corporate governance measures are sensitive to the economic situation: to test the assumption that a lower economic growth and a higher public debt should increase the likelihood of enhancing minority shareholder protection, we use two economic variables *GDP Growth* and *Debt*. Finally, we use the variables *EPR* and *EPT* capturing the degree of specific employment protection: the former refers to employment protection of *regular* workers against individual dismissal and the latter refers to regulation of *temporary* forms of employment.

5.2.3 Methodology

First, we run regressions with a simple panel probit model. Given the nature of our dichotomous dependent variable, a probit model seems to be more accurate. Then, we run multiple regressions with duration models for recurrent and sequential events. Following the recommendations of the statistical literature, we chose to use a conditional Cox model in gap time. This model has several advantages over simple duration models: (i) Cox models with conditional variance-correction and risks restarted at the last event that account for event dependence; (ii) this model is used to examine the determinants of the hazard ratewhich is the probability per time unit that a case that has survived to the beginning of the respective interval will fail in that interval[9]. In conditional gap time models, times restart after each event, the data are then stratified by event number, grouped by country and separate baseline hazards are estimated at each occurrence. In our sample, among 640 observations, there are a total of 154 events which each country experiencing an average of $154/16 \approx 10$ events. By adopting this method, we want to examine the effect of our ideological variable and of additional control variables on the *timing* of legislative adoption of minority shareholder protection legislation.

[9]Box-Steffensmeier *et al.* [2007] introduce the conditional frailty model that accounts for both event dependence and unobserved unit heterogeneity. Conditional gap time models and conditional frailty models give us substantially equivalent results.

6 Results

6.1 Partisanship and Financial Liberalization

The OLS regression shows a positive and significant impact of the Left-Right ideological position of the respective governments on degree of capital movements liberalization (Table 2): the more incumbent government is positioned at the right-wing end of the political spectrum, the higher is the degree of financial liberalization and financial openness. This relationship remains verified by introducing control variables. Column [1] gives the result for the four decades: we find a positive and significant relationship only in the 1980s and the 1990s. Conversely, in the 2000s, financial reforms seem to have been implemented by left-wing parties confirming the argument that the increasing financial integration induced left-wing governments to accelerate the process of financial liberalization in expense of partisan purposes. Then, we find a positive and significant coefficient for social security expenditures: when a new government is elected, it decides to increase social security expenditures before increasing the degree of financial liberalization. We also find as expected that the strategy of the government differs according its political color: statistically, a left-wing government will decide to increase social security expenditures whereas a right-wing government will decide to decrease it. Now we look at the marginal effect of the social security expenditures on the degree of financial openness (Table 3): when significant, the marginal effect decreases with the government ideological affiliation. The more the government is at the right-wing of the political spectrum, the lower will the social security expenditures be and inversely, the more the government is at the left-wing, the higher will the social security expenditures be (columns [6] and [7]).

[Insert Tables 2 and 3 about here]

Regarding the influence of our control variables on the degree of financial openness, we find most of our hypotheses verified: "globalization" seems to have a positive influence on the governments' decision: economic openness and "influential ideology" are associated with positive and significant coefficients (columns [6] and [7]). Then, regarding the institutional variables, results emphasize a low "complementarity" between a high degree of capital mobility and a high degree of minority shareholder protection. Consequently, we cannot conclude that institutional investors will accept to move their capital only if the host country guarantees a strong degree of minority shareholder protection. All hypotheses regarding our "economic" variables are significantly verified: lower growth rates lead governments to open capital account (column [6]) confirming the results from Quinn and Toyoda (2008) which show that capital account liberalization had a positive association with growth in both developed and developing countries. Then, the degree of financial openness and the public deficit rate are positively and significantly correlated: the higher the deficit rate (as a percentage of GDP) is, the more likely governments will open capital account. We find, as expected, that a financial/banking crisis decreases the likelihood of opening capital account. But, significativity drops when introducing control variables. Then, we find the expected relationship between the degree of central bank independence and the degree of financial openness: as expected, after the collapse of the Bretton Woods system, governments preferred to choose in favor of capital mobility instead of the use of monetary policies for electoral purposes. Our results show that majoritarian electoral systems are positively and significantly correlated with the capital flows liberalization as in Pagano and Volpin (2005). The negative and significant coefficient associated with the nature of the political regime can at first sight be understood as a support for Quinn and Inclan (1997) argument that presidential political regime induces governments to implement financial policies that minimizes the political costs. This result rejects the Lijphart [1999] argument that presidential regimes are characterized by a stronger degree of ideological cohesion within the government.

Table 4 shows the results of our first regression by country from 1970 to 2009: all countries of our sample verify the expected relationship except for Denmark and the Netherlands and France,(where the results are not significantly). Only Belgium and New Zealand have a negative and significant coefficient. When the Labor Party came to power in 1984 in New Zealand, after succeeding to a conservative government that had maintained high capital controls, the left-wing party strongly liberalized capital controls. Left-wing government had been seduced by Monetarist ideas. The objective of the new government was to accelerate country's internationalization after having suffered from a deep exchange crisis (Helleiner, 1994).

[Insert Table 4 about here]

In our second regression regarding the reforms of financial liberalization, we make use of a new indicator capturing three different dimensions: the liberalization of capital account, of bank sector and of stock markets (Kaminsky and Schmuckler, 2008).

The results of our second regression are roughly the same as in the first regression: right-wing governments are more likely to liberalize financial systems than left-wing governments. We have a positive and significant relationship in the three first four decades (column [1]). As in the first regression, the compensation hypothesis seems to be verified because the marginal effect tends to decrease with the government ideological affiliation (Table 6): a left-wing government is more concerned to compensate the negative effects of financial liberalization on losers than a right-wing government. Regressions on control variables give us the same results as in the first regression except for some variables: surprisingly, we find a negative and significant coefficient associated with the economic openness. We find a stronger complementarity between the liberalization of the financial sector and the nature of the corporate governance system. Then, our results for our "economic" variables seem to be less robust in this second regression: the GDP growth has an insignificant impact on the degree of financial liberalization, a negative coefficient is associated with the deficit rate and a positive coefficient with our financial crisis variable. But, we can admit that governments during an economic and/or banking crisis might justify structural reforms in favor of a deeper financial liberalization. Indeed, according to (neo-)liberal governments, a crisis is the manifestation of some failures of the economic system. Finally, regarding the nature of the political regime the results are different if the country is a member or not of the European Union.

[Insert Tables 5 and 6 about here]

Looking at Table 4, we find the positive and significant relationship between the degree of financial liberalization and our indicator of government ideological position except for France, Canada and the United Kingdom with insignificant results.

6.2 Partisanship and Corporate Governance

Results from the probit model and the conditional Cox model in gap time with legislative events of minority shareholder protection as dependent variable are shown in Table 7. Results are substantially equivalent in both models.

In the standard panel probit model, we find that a pro-shareholder legislation is enacted if the incumbent government is a right-wing government. The coefficients associated with our ideological variable are all significant. This result confirms Roe's (2003) empirical study: Roe (2003) compares the political government orientation (i.e. an average of government position over 1980-1991) with an index of ownership separation (i.e. the portion of mid-sized firms without a twenty per cent blockholder in 1995). We believe that our data in this article are more precise to test our relationship. However, the compensation hypothesis seems not to be verified: neither employment legislation for protected workers (i.e. with a regular contract) nor employment legislation for less protected workers (i.e. with a temporary contract) have a significant impact on the probability associated with pro-shareholder policies. We also find that economic and financial openness increase the likelihood to promote minority shareholders' interests. Other economic variables, debt and economic growth, are not statistically significant. Regarding the institutional variables, we find Pagano and Volpin's (2005) result: majoritarian electoral systems are correlated with a better minority shareholder protection, confirming the result in Gatti (2009) that proves that proportional election systems favor ownership concentration. Looking at Table 4 that presents the results of the probit model by country, we find that only Austria and Australia have simultaneously a positive and significant coefficient.

In the following model, a conditional Cox model in gap time, we find that a right-wing government shapes the hazard of an event. The coefficients of economic openness and economic growth have the expected sign but are not statistically significant. Moreover, we are capable with the variance of the random effect (θ) of taking into account the influence of unmeasured factors (i.e. legislative traditions) that may increase the hazard of an event in countries with more adoptions of a pro-shareholder legislation. We can see that in the three columns the variance of the frailty is not significant. Results are substantially equivalent after inclusion of several control variables: as in the probit model, the variables associated with employment protection legislation are not significant. Surprisingly, we obtain a negative coefficient associated with the degree of financial openness that becomes significant in the column [6]. Most of our "economic" variables are nevertheless insignificant. In conclusion, these results reveal that an election of a right-wing government shortens the interval between the adoptions of a pro-shareholder legislation.

[Insert Table 7 about here]

7 Concluding remarks

The aim of this article was to test empirically the relationship between the financial reforms and the government ideological affiliation on a pooled time-series cross-section data set, comprising observations on 18 countries, covering the time period between 1970 and 2009. Our results emphasized a strong relationship between the decision to liberalize financial markets and the government ideological affiliation. In order to estimate the impact of partisanship of corporate governance reforms, we first identified major reforms in this field and then ran different regressions. Consequently, contrary to the argument confirming that structural reforms should only respond to economic imperatives, we find that politics and political partisanship still matter.

These empirical results indicate that financial liberalization - defined in a large sense - includes institutional and redistributive issues: in a mobile capital world, institutional investors should decide to invest more easily their money in a business in a country where they can benefit from a strong protection. Minority shareholders require stronger protection of their assets: companies have to improve transparency - by adopting accounting rules and audit procedures -, board independence, minority voting rights over strategic decisions and finally managerial incentives. Even though financial markets are more integrated in most of developed countries with a better legislation in favor of financial investors, some countries ensured that workers' rights are preserved. Consequently, economic and political institutional factors are affecting the government's decision. Due to these redistributive issues, individuals will express conflicting demands in the political space.

The originality of the present work is then to use new measures of financial development (financial openness, corporate governance ...), to take into account the interaction between the process of financial liberalization and the corporate governance reforms and to adopt a multidimensional approach. This article aims at emphasizing that the political differentiation remains despite of globalization pressures. Moreover, we show that left-wing governments will simultaneously decide to liberalize the financial sector and to increase social security transfers to compensate the negative effects associated with the process of financial liberalization on left-wing constituents. Thus, institutional change is determined by political factors (Amable and Palombarini, 2009) and parties' strategy may change over time because the preferences of socioeconomic groups are changing. As previously noted, political parties can be also influenced by a global ideology. In that sense, globalization also played an important role.

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Table 1: Main characteristics of the two corporate governance models

	"Insider" model (Continental Europe & Japan)	**"Outsider" model (Anglo-Saxon countries)**
Ownership structure	*Concentration* ownership: large shareholders/"blockholders" (banks, big families, State)	*Diffusion* ownership: minority shareholders (institutional investors)
Financing systems	*Bank* financing (*Hausbank, main bank*, ...): control over the firm via debt	*Arm's length* financing: control over the firm via equity
Company's goals	*Company's stability and growth*: - Shareholders pursue strategic interests - The representation rights of workers are strong - The structure of decision making is consensual	*Shareholder value maximization*: - Shareholders pursue financial interests - The representation rights of workers are weak - The structure of decision making is hierarchical
Control mechanisms	*Internal* control	*Corporate* control (proxy contest, friendly or hostile takeovers)

.

Adaptation of Aguilera & Jackson (2003)

Table 2: Impact of political partisanship on the degree of financial openness (PCSE estimation)

Variables	**Dependent variable: Capital account liberalization (*KAOPEN*)**						
	[1]	**[2]**	**[3]**	**[4]**	**[5]**	**[6]**	**[7]**
Ideology	0.0137***	-0.0001	0.0027	0.0036***	-0.0021*	0.0078***	0.0766***
	(0.0022)	(0.0018)	(0.0022)	(0.0011)	(0.0060)	(0.0024)	(0.0085)
$Social\_Security_{t-1}$		-0.0075				0.0191***	0.0178**
		(0.0080)				(0.0046)	(0.0090)
*Left*Social_ Security*		-0.0004				0.0003**	0.0053***
		(0.0005)				(0.0001)	(0.0006)
*Right*Social_ Security*		0.0000				-0.0008***	-0.0044***
		(0.0004)				(0.0002)	(0.0006)
GDP_ Growth		-0.0249				-0.0180**	-0.0251
		(0.0180)				(0.0082)	(0.0218)
Openness			-0.0012			0.0035***	0.0048**
			(0.0012)			(0.0013)	(0.0020)
Inter_ ideology			0.0149***			0.0107***	0.0093***
			(0.0007)			(0.0004)	(0.0020)
LLSV				0.0605***		0.0208	0.0227
				(0.0116)		(0.0217)	(0.0200)
Deficit				0.0143***		0.0238***	0.0591***
				(0.0052)		(0.0068)	(0.0180)
Banking				-0.1465***		-0.0975*	-0.1549
				(0.0496)		(0.0550)	(0.1169)
CBI					0.4440***	0.5552***	0.7759***
					(0.0246)	(0.0233)	(0.0483)
Majoritarian					0.3624***	0.5202***	0.2033***
					(0.0284)	(0.0637)	(0.0757)
Presidential					-0.2426***	-0.2145***	-0.6526***
					(0.0209)	(0.0187)	(0.1222)
1970-1979	-0.0028						
	(0.0037)						
1980-1989	0.0097***						
	(0.0025)						
1990-1999	0.0123***						
	(0.0031)						
2000-2009	-0.0094***						
	(0.0015)						
Constant	1.5062***	1.0572***	2.1884***	0.0700	-1.2972***	-0.5289***	-1.0355***
	(0.1089)	(0.0574)	(0.0423)	(0.0449)	(0.0909)	(0.0187)	(0.2041)
Year dummies	No	Yes	Yes	Yes	Yes	Yes	Yes
N	702	702	702	702	702	702	369
Countries	18	18	18	18	18	18	12
R^2	0.04	0.40	0.43	0.43	0.55	0.61	0.77

Note: Panel corrected standard errors in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 3: Marginal effect of the social security expenditures (PCSE estimation)

	[2]	**[6]**	**[7]**
min	-0.0155	0.0352**	0.3744***
	(0.0247)	(0.0141)	(0.0468)
mean_less_1sd	-0.0043	0.0150**	0.1655***
	(0.0069)	(0.0058)	(0.0203)
mean	0.0004	0.0064***	0.0775***
	(0.0006)	(0.0025)	(0.0092)
mean_plus_1sd	0.0051	-0.0021	-0.0103***
	(0.0081)	(0.0017)	(0.0031)
max	0.0115	-0.0136**	-0.1297***
	(0.0183)	(0.0062)	(0.0175)

Note: Panel corrected standard errors in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 4: Impact of political partisanship on the degree of financial liberalization (by country)

Countries	**Dependent variable: Financial Openness (*KAOPEN*)**	**Dependent variable: Financial Liberalization (*FL*)**	**Corporate Governance (Probit model)**
Sweden	0.0143***	0.0685***	0.0162
	(0.0049)	(0.0015)	(0.0132)
Norway	0.0432***	0.0654**	-
	(0.0107)	(0.0282)	
Denmark	0.0088	0.0176	-
	(0.0091)	(0.0174)	
Finland	0.0231**	0.0538***	0.0059
	(0.0088)	(0.0116)	(0.0143)
Belgium	-0.0302***	-	-0.0005
	(0.0098)		(0.0218)
Netherlands	0.0169*	-	0.0288
	(0.0100)		(0.0258)
France	-0.0044	-0.0153	-0.0099
	(0.0131)	(0.0178)	(0.0118)
Italy	0.0363	0.0601**	0.0501*
	(0.0322)	(0.0312)	(0.0279)
Spain	0.0492***	0.0162	0.0317
	(0.0179)	(0.0195)	(0.0208)
Germany	⋆	0.0567***	0.0161
		(0.0156)	(0.0168)
Austria	0.0359***	-	0.0402**
	(0.0056)		(0.0203)
United Kingdom	0.0493***	0.0196*	0.0209*
	(0.0076)	(0.0100)	(0.0122)
Ireland	0.0094**	0.0651**	0.0157
	(0.0187)	(0.0284)	(0.0217)
United States	⋆	0.0376***	0.0279*
		(0.0103)	(0.0167)
Canada	⋆	0.0065	0.0195
		(0.0088)	(0.0279)
Australia	-0.0080	-	0.0420**
	(0.0078)		(0.0104)
New Zealand	-0.0791***	-	-0.0435
	(0.0226)		(0.0285)
Japan	0.0377***	0.1352***	0.0322*
	(0.0069)	(0.0232)	(0.0195)

Note: Standard errors in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$
⋆ : constant dependent variable

Table 5: Impact of political partisanship on the degree of financial liberalization (PCSE estimation)

Variables	Dependent variable: Financial Liberalization (*FL*)						
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Ideology	0.0082***	-0.0019	0.0069***	0.0046**	0.0191***	0.0232**	0.0175*
	(0.0023)	(0.0061)	(0.0023)	(0.0023)	(0.0008)	(0.0058)	(0.0098)
$Social\_Security_{t-1}$		0.0175*				-0.0251***	0.0003
		(0.0093)				(0.0071)	(0.0092)
*Left*Social_ Security*		-0.0004				-0.0003	0.0004
		(0.0005)				(0.0005)	(0.0006)
*Right*Social_ Security*		0.0002				-0.0028***	-0.0023***
		(0.0004)				(0.0003)	(0.0007)
GDP_ Growth		-0.0192				0.0036	0.0081
		(0.0186)				(0.0164)	(0.0140)
Openness			-0.0123***			0.0020	-0.0024**
			(0.0032)			(0.0015)	(0.0012)
Inter_ ideology			0.0432***			0.0451***	0.0499***
			(0.0006)			(0.0008)	(0.0020)
LLSV				0.1218***		-0.0006	0.0453***
				(0.0276)		(0.0168)	(0.0153)
Deficit				-0.0437**		-0.0505***	-0.0596***
				(0.0169)		(0.0092)	(0.0104)
Banking				0.6250***		0.6421***	0.2433**
				(0.0207)		(0.0765)	(0.1006)
CBI					0.0425**	0.0567	0.2156***
					(0.0183)	(0.0410)	(0.0146)
Majoritarian					0.2915***	0.2785***	0.1771***
					(0.0427)	(0.0407)	(0.0457)
Presidential					0.3125***	0.5142***	-0.2329***
					(0.0470)	(0.0475)	(0.0608)
1970-1979	0.0273***						
	(0.0065)						
1980-1989	0.0017						
	(0.0035)						
1990-1999	0.0023*						
	(0.0015)						
2000-2009	⋆						
Constant	8.9799***	2.4832***	7.4937***	8.4966***	8.5914***	6.8169***	6.4927***
	(0.0999)	(0.1262)	(0.0778)	(0.1175)	(0.1013)	(0.1340)	(0.1212)
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	512	512	512	512	512	512	284
Countries	13	13	13	13	13	13	9
R^2	0.71	0.44	0.71	0.73	0.73	0.75	0.88

Note: Panel corrected standard errors in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$
⋆ : constant dependent variable

Table 6: Marginal effect of the social security expenditures (PCSE estimation)

	[2]	[6]	[7]
min	0.1867***	0.1131***	0.0773*
	(0.0423)	(0.0314)	(0.0405)
mean_less_1sd	0.0520***	0.0494***	0.0311*
	(0.0118)	(0.0135)	(0.0176)
mean	-0.0046***	0.0226***	0.0117
	(0.0010)	(0.0060)	(0.0080)
mean_plus_1sd	-0.0613***	-0.0042***	-0.0078***
	(0.0139)	(0.0021)	(0.0020)
max	-0.1382***	-0.0406***	-0.0342**
	(0.0313)	(0.0120)	(0.0148)

Note: Panel corrected standard errors in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 7: Impact of political partisanship on the improvement of minority shareholder protection (Probit model and Conditional Cox model in gap time)

	Probit model			Conditional Cox model in gap time		
	[1]	**[2]**	**[3]**	**[4]**	**[5]**	**[6]**
Ideology	0.0110***	0.0124***	0.0128**	0.0106**	0.0104**	0.0160***
	(0.0038)	(0.0040)	(0.0050)	(0.0051)	(0.0045)	(0.0044)
EPR			0.1664			0.2237*
			(0.1404)			(0.1277)
EPT			0.0290			0.0013
			(0.0697)			(0.0780)
Openness	0.0026	0.0062***	0.0056**	0.0025	0.0074**	0.0086
	(0.0020)	(0.0024)	(0.0027)	(0.0027)	(0.0037)	(0.0047)
Kaopen	0.1807***	0.1470**	0.0047	-0.1031	-0.1390	-0.2594**
	(0.0660)	(0.0701)	(0.1075)	(0.1451)	(0.1165)	(0.1046)
Debt	-0.0018	-0.0008	-0.0036	-0.0010	-0.0012	-0.0007
	(0.0023)	(0.0024)	(0.0029)	(0.0033)	(0.0039)	(0.0039)
GDP_ Growth	-0.1225	-0.1230	-0.0985	-0.0447	-0.0934	0.0974
	(0.0872)	(0.1674)	(0.1054)	(0.1499)	(0.1512)	(0.0163)
Majoritarian		0.1065	0.3080*		0.2524*	0.3424
		(0.0987)	(0.1662)		(0.1477)	(0.2131)
Presidential		0.5837***	0.3490*		0.4071	0.1980
		(0.1674)	(0.2059)		(0.2281)	(0.2121)
Constant	-1.8898***	-1.2967***	-1.1157**			
	(0.2216)	(0.2482)	(0.2059)			
Observations	632	632	632	632	632	632
Number of failures				154	154	154
R^2	0.34^a	0.39^a	0.26^a	0.01	0.02	0.03
θ				0.00	0.00	0.00
Wald χ^2				12.2**	14.4**	28.4***

Note: Standard errors in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$
[a] Pseudo R-square

Table 8: Summary statistics

Variables	Mean	SDbw	SDwth	b/w	Min	Max	N	n	T
Ideology	0.45	10.17	14.70	0.69	-59.48	42.29	712	18	39
Financial Openness	1.52	0.61	1.04	0.58	-1.84	2.47	714	18	39
Financial Liberalization	7.51	0.60	1.79	0.33	3.00	9.00	520	13	40
Shareholder Protection	0.24	0.09	0.42	0.22	0.00	1.00	640	16	40
Social Security Exp.	14.11	3.36	2.64	1.27	3.72	28.91	695	18	39
Economic Openness	53.14	35.31	18.78	1.35	9.81	163.48	720	18	39
Global Ideology	10.02	0.00	16.58	0.00	-40.00	37.00	648	18	40
GDP Growth	2.86	0.66	2.04	0.32	-6.20	11.50	697	18	39
Anti Director Index	3.27	1.40	0.50	2.86	0.00	5.00	657	17	38
Deficit	0.33	1.54	3.06	0.50	-9.93	16.13	685	18	38
Banking	0.17	0.08	0.37	0.22	0.00	1.00	720	18	40
Debt	60.24	20.71	20.97	0.99	7.95	175.27	625	18	35
Central Bank Indep.	2.53	0.85	0.74	1.15	1.00	4.00	691	18	38
Employ. Protec. Regular	1.97	0.83	0.20	4.15	0.17	3.88	380	16	24
Employ. Protec. Temporary	1.85	1.33	0.65	2.05	0.25	5.38	380	16	24
Majoritarian	0.59	0.78	0.25	3.12	0.00	2.00	713	18	39
Presidential	0.17	0.38	0.00	0.00	0.00	1.00	713	18	39

Table 9: Variable description

Variables	Description	Source
Financial Openness	Index *de jure* measuring a country's degree of capital account openness: *KAOPEN* is based on the binary dummy variables that codify the tabulation of restrictions on cross-border financial transactions reported in the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions* (*AREAER*). The authors assigned dummy variables for the four major categories on the restrictions on external accounts: a first variable indicating the presence of multiple exchange rates, a second variable indicating restrictions on current account transactions, the third variable indicating restrictions on capital account transactions and a last variable indicating the requirement of the surrender of export proceeds: these variables are equal to one when the capital account restrictions are non-existent. The higher the index is, the more open the country is to cross-border capital transactions.	Chinn & Ito, [2008]
Financial Liberalization	Capital account is fully liberalized if (i) banks and corporations are allowed to abroad mostly freely, (ii) there are no special exchange rates for either current account or capital account transactions and (iii) there are no restrictions to capital outflows. If these criteria are not fulfilled, capital account is not liberalized. Finally, capital account is partially liberalized if (i) banks and corporations are allowed to borrow but subject to certain restrictions, (ii) there are special exchange rates for current account or capital account transactions and (iii) there are some restrictions to capital outflows. Domestic financial sector is fully liberalized if (i) there are no controls on interest rates, (ii) no credit controls and (iii) deposits in foreign currencies are likely allowed. If these criteria are not fulfilled, domestic financial sector is not liberalized. Finally, domestic financial sector is partially liberalized if (i) there are controls in lending rates and borrowing rates, (ii) controls in the allocation of credit controls and (iii) deposits in foreign currencies are likely not allowed. Stock market is fully liberalized if (i) foreign investors are allowed to hold domestic equity without restrictions and (ii) capital, dividends, and interest can be repatriated freely within restrictions. If these criteria are not fulfilled, stock market is not liberalized. Finally, stock market is partially liberalized if (i) foreign investors are allowed to hold up to 49% of each company's outstanding equity and (ii) capital, dividends and interest can be repatriated but not before two-to-five years of the initial investment.	Kaminksy & Schmukler, [2008]

Variables	Description	Source
Government Position	Our indicator takes account of ideological changes even within a given party or coalition. In that sense, such an indicator is preferable to an ordinary binary variable capturing the ideological affiliation of a party. We have chosen many statements in order to construct our indicator. We can identify right-wing statements raising the indicator's value and left-wing statements lowering the indicator's value. Left-wing statements include positive statements on market regulation (per403), economic planning (per404), Keynesian demand management (per409), controlled economy (per412), Marxist analysis (per415), social justice (per503), Welfare State expansion (per504), social harmony (per606), labor groups (per701), underprivileged minority groups (per705) and negative statements on military (per105) and traditional morality (per604). Right-wing statements include positive statements on military (per104), governmental and administrative efficiency (per303), political authority (per305), free enterprise (per401), incentives (per402), economic orthodoxy (per414), Welfare State limitation (per505), traditional morality (per603), law and order (per605) and negative statements on labor groups (per702). This indicator is the vote-weighted mean of the indicators of all governing parties for a multi-party government.	Amable, Gatti & Schumacher, [2006]
Social security expenditures	Social security transfers as a percentage of GDP	Armingeon *et al.*, [2010]
Growth of real GDP	Growth of real GDP, percentage change from previous year	Armingeon *et al.*, [2010]
Economic Openness	Sum of exports and imports as a percentage of current GDP	Penn World Table (7.0)
Global ideology	Worldwide support for free-market internationalism based on the positive statements from the CMP database on free enterprise (per401), protectionism (per406), controlled economy (per412), nationalization (per413) and on the negative statements on protectionism (per407). Net free-market internationalism is equal to (per401+per407)-(per406+per412+per413). Then, this index is multiplied by the party-year scores by the percentage of votes. Finally, this index is a 5-year moving average and an average for the whole international system by taking the unweighted average for 25 countries per year.	Burgoon *et al.*, [2008]

Variables	Description	Source
Anti-Director Rights ($LLSV$)	Six rights measure the degree of minority shareholder protection: (1) the country allows shareholders to mail their proxy vote; (2) shareholders are not required to deposit their shares prior to the General Shareholders' Meeting; (3) cumulative voting is allowed; (4) an oppressed minorities mechanism is in place; (5) the country grants shareholders a preemptive right to buy new issues of stock, which can be waived only by a shareholder vote and (6) when the minimum percentage of share capital that entitles a shareholder to call for an Extraordinary Shareholders' Meeting is less than or equal to 10%. The index is formed by adding 1 when these criteria are fulfilled.	Pagano & Volpin, [2005]
Public Deficit	Annual deficit (government primary balance) as a percentage of GDP.	Armingeon *et al.*, [2010]
Banking Crisis	Dummy variable equal to 1 in years of banking crisis	Bordo *et al.*, [2001]
Central Bank Independence	Index by Alesina, [1988]: from 1 to 4, the higher, the more independent. This index considers whether the central bank has final authority over monetary policy, whether government officials sit on the governing board of the bank, and whether more than half of the members are appointed by the government.	Armingeon *et al.*, [2010]
Majoritarian voting system	Variable equals 0 with a proportional representation, 1 with a modified proportional representation and 2 with a single-member representation	Huber *et al.*, [2004]
Presidential political regime	Variable equals 0 with a parliamentary regime and 1 with a presidential regime	Huber *et al.*, [2004]
Employment Protection of Regular Workers (EPR)	Employment protection of regular workers against individual dismissal is composed of a notification procedures of dismissal, delay involved before notice can start, length of the notice period at, severance pay, definition of justified or unfair dismissal, length of trial period, compensation following unfair dismissal, possibility of reinstallement following unfair dismissal, maximum time to make a claim of unfair dismissal	OECD Library
Employment Protection of Temporary Forms (EPT)	Regulation of temporary forms of employment is composed of valid cases for use of fixed-term contracts (FTC), maximum number of successive FTC, maximum cumulated duration of successive FTC, types of work for which temporary work agency (TWA) employment is legal, restrictions on number of renewals, maximum cumulate duration of TWA contracts, the requirement of the set-up of a TWA, the equal treatment of regular and agency workers at the user firm	OECD Library
Public Debt	Gross government debt (financial liabilities) as a percentage of GDP.	Armingeon *et al.*, [2010]

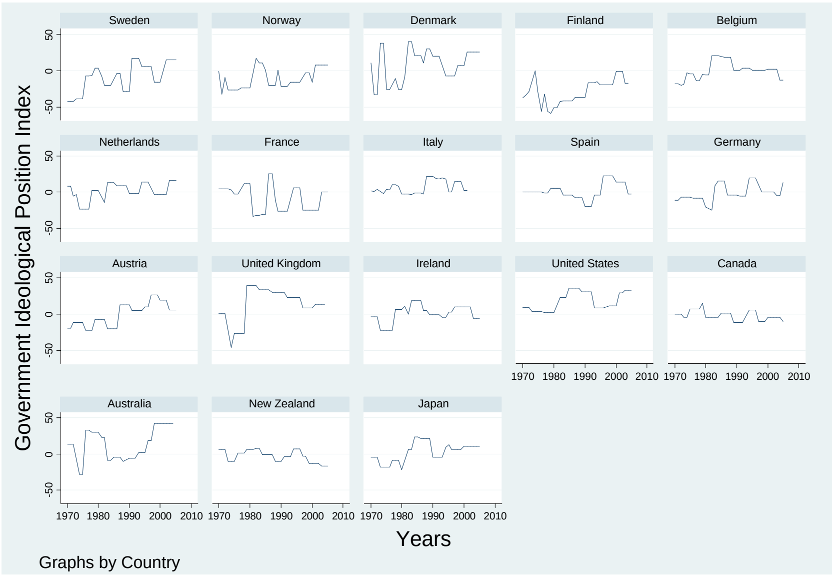

Figure 1: Government Ideological Position Index (1970-2009)

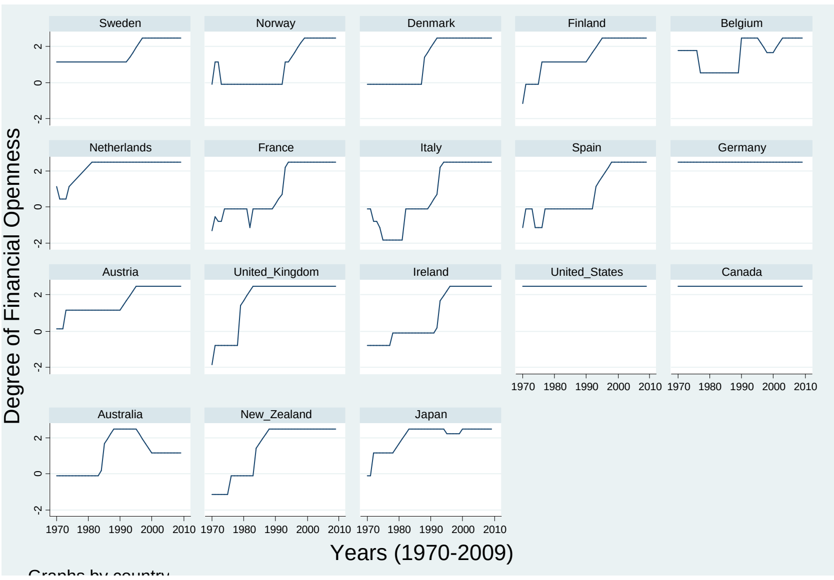

Figure 2: Chinn-Ito Financial Openness Index (1970-2009)

Figure 3: Kaminsky-Schmukler Financial Liberalization Index (1970-2009)

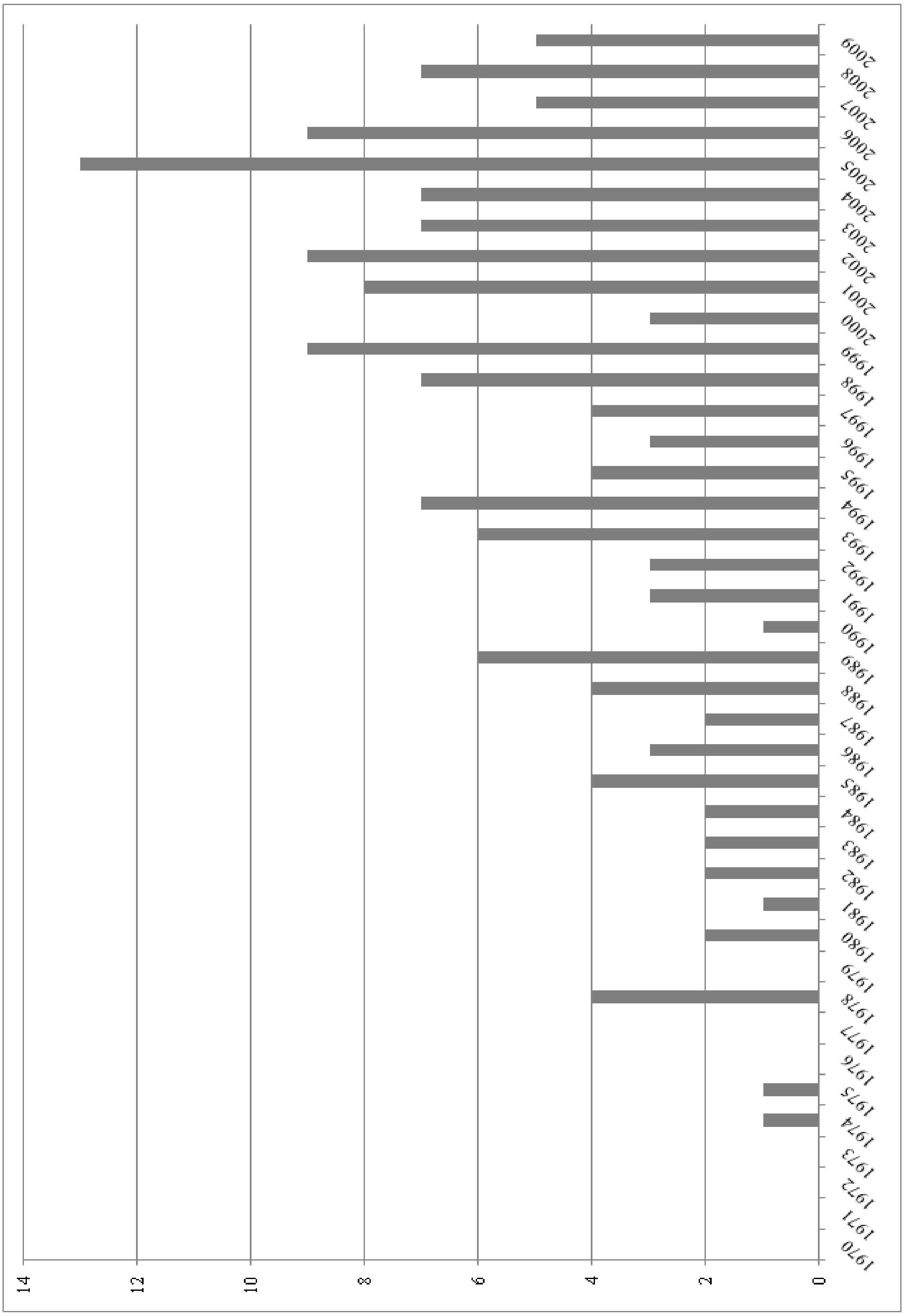

Figure 4: Minority Shareholder Protection Improvement events in 16 OECD countries (1970-2009)